



DEPARTMENT OF THE AIR FORCE

WASHINGTON, DC

Office Of The Under Secretary

JUN 30 1999

MEMORANDUM FOR SEE DISTRIBUTION

FROM: SAF/IAX
1080 Air Force Pentagon
Washington DC 20330-1080

SUBJECT: Reduction of the Standard Foreign Military Sales (FMS) Administrative Charge from 3 Percent to 2.5. Percent (IAX 99016) (Defense Security Cooperation Agency (DSCA) memorandum I-08440/99 of 28 June 1999, Subject: Implementation Instructions for New Foreign Military Sales (FMS) 2.5 Percent Administrative Charge)

On 28 June 1999, the Deputy Secretary of Defense reduced the standard Foreign Military Sales (FMS) administrative surcharge from 3 percent to 2.5 percent for all new FMS cases. The reduction applies to all new lines or cases implemented on or after 1 June 1999.

Reference DSCA implementing instructions, as attached, for the new administrative surcharge rate. The instructions advise that all cases or line additions in development will be revised to reflect the new 2.5 percent rate. Cases awaiting DSCA countersignature will be returned to the MILDEP without action for revision.

The following amplifications are provided:

a. All cases in an offered status are eligible for the new rate (See examples below):

KS-D-SAM offered 11 May 1999

SN-D-NCJ-M01 offered 10 May 1999

SR-D-SGZ offered 17 Feb 1999

b. Documents in this category should be accepted by the customer "as is" with a modification issued within 30 days of the implementation date adjusting the administrative surcharge to 2.5 percent. In those situations where the customer requests the document be revised prior to acceptance, a restated case or a pen and ink change may be processed. DSCA must countersign all documents where the change involves a reduction in the administrative charge. DSCA must coordinate on all pen and ink changes.

c. New documents increasing a line quantity will require a new line be added. A note will reflect application of 2.5 percent administrative surcharge to the new line.

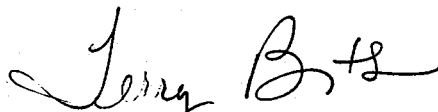
LOAs in accepted status but not yet implemented by Defense Integrated Financial System (DIFS) are also eligible for the new rate. The implementing agency will process a modification adjusting the rate within 30 days of the implementation date.

d. All modifications written to adjust the administrative surcharge will include the following statement in the document description paragraph:

"The purpose of this document is to adjust the administrative surcharge rate in accordance with DEPSECDEF Memorandum dated 28 June 1999."

DSAMS Release 5.05 due for release 2 July 1999 (and Air Force implementation 6 July 1999) includes the 2.5 percent rate as the default administrative surcharge. However, the changes needed to default to the new rate on lines added on Amendments will not be in that Release. The DSAM PMO is working a solution and is hopeful a fix will be available in the near term.

Please address any questions to Mr. Lewis Witt, SAF/IAXM at DSN 425-8960, commercial (703) 588-8960 or email Lewis.Witt@pentagon.af.mil.



TERRY L. BATES
Acting Chief, Policy Division
Deputy Under Secretary, Int'l Affairs

Attachment:
DSCA Implementing Instruction

cc: See Attached Distribution List



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

28 JUN 1999

In reply refer to:

I-08440/99

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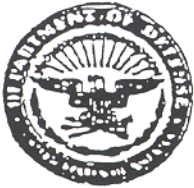
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DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICESUBJECT: Implementation Instructions for New Foreign Military Sales (FMS) 2.5 Percent
Administrative Charge

DEPSECDEF memo dated 28 June 1999 (Atch A) officially changed the standard FMS administrative rate from 3.0 percent to 2.5 percent. Implementing instructions are hereby provided (Atch B). Direct any questions to my points of contact, Ms. Sally Liberty, (703) 604-6567, e-mail: sally.liberty@osd.pentagon.mil or Ms. Beth Baker, (703) 604-6612, e-mail: beth.baker@osd.pentagon.mil.

Attachments:
as statedcc: DISAM
DFAS-DE
DSAMS-PMOMICHAEL S. DAVISON, JR.
LIEUTENANT GENERAL, USA
DIRECTOR



DEPUTY SECRETARY OF DEFENSE

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JUN 28 1999

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
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DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Reduction of the Standard Foreign Military Sales (FMS) Administrative Charge
from 3 Percent to 2.5 Percent


References: (a) DoD Financial Management Regulation (FMR) 7000.14-R, Volume 15,
Security Assistance Policy and Procedures, March 1993, paragraph 070602C

(b) Defense Security Cooperation Agency (DSCA) memorandum I-99/05958 of
7 May 1998, Subject: Annual Review of Foreign Military Sales (FMS)
Administrative Charge and Logistics Support Charge (LSC) Accounts

The FMS Administrative charge is hereby reduced to 2.5 percent for all new FMS
cases and new lines implemented by the USG on or after 1 June 1999.

This reduction is possible because of past actions of the Security Assistance
community to reduce FMS management operating costs and properly assess costs to
appropriate charges. The DSCA's financial analyses show a need to further reduce FMS
operating costs to achieve a long term parity between income and budgets, based on current
sales estimates. Our challenge is to make other significant adjustments to ensure the long-
term solvency of the FMS Administrative account.

The DSCA will continue its study and reinvention efforts, pursuing Defense Reform
Initiative (DRI) and Acquisition Reform principles to achieve efficiencies in business
practices and reduce redundancies in FMS-involved organizations. DSCA will annually
review the Administrative and LSC rates, as required by the DoD Financial Management
Regulation, Volume 15. I direct DoD organizations to continue their full support for DSCA's
reform initiatives.


John J. Hamre

U10354 /99

Implementation Instructions
for New FMS Administrative Rate of 2.5 percent
Effective 1 June 1999

1. **Background:** DSCA has the responsibility to analyze rates for the FMS administrative surcharge on an annual basis. When DSCA completed its analysis for FY 1998, the balance of the surcharge account and projections of future income and expenses indicated a lowering of the standard administrative surcharge rate was justified. Based on this, the DEPSECDEF signed a memorandum dated 25 June 1999 officially changing the standard administrative surcharge rate from 3% to 2.5%. The purpose of these instructions is to advise how the new 2.5% administrative rate will be implemented. The DSCA goal is to ensure that the rate change will be implemented consistently throughout DoD.

2. **Scope:** The rate change applies to all new cases and to new lines established on existing cases implemented on or after 1 June 1999. This date was selected to preclude customers delaying acceptance of pending documents to gain the lower rate. No exceptions to this date will be considered.

3. **Instructions:** Procedures for applying administrative surcharge rates to documents in different stages of preparation follow:

(Note: A 5% administrative surcharge will continue to be assessed for all nonstandard lines. Program management lines will continue to be exempt from any administrative surcharge. Since the percentages applicable to nonstandard and program management lines are not changing, procedures for pricing these lines remain unchanged and are not addressed below.)

a. LOAs Implemented Prior to 1 Jun 99. All case lines implemented prior to 1 Jun 99 will retain the administrative surcharge in effect at the time the document was implemented (usually 3%). Existing (implemented) case lines will not be adjusted to reflect the reduced rate. If line adjustments are made on future modifications/amendments (i.e., to reflect pricing or quantity changes), the line will still be priced using its original administrative percentage rate. The treatment of NEW lines added to existing cases after 1 Jun 99 is discussed below.

b. LOAs In "Development." All LOAs which have not yet been countersigned (or offered if countersignature is not required) should be priced using a 2.5% administrative surcharge on all standard lines. All documents currently in the coordination process (either within the military department or DSCA) will need to be re-priced using the new rate, when applicable. This may require documents to be returned to the pricing activity without further coordination or countersignature.

c. LOAs "Offered" to the Customer. All LOAs which have been offered to the customer (countersigned (if required) but not yet accepted) are eligible for the new rate. It is recommended that these LOAs be accepted by the customer as written. Within 30 days of implementation, modifications to these LOAs shall be processed by the military departments adjusting the standard administrative rate to 2.5% on all applicable lines. If the customer prefers that the rate be changed prior to acceptance, the LOA may be restated with the new rate and re-offered to the customer or a pen and ink change may be processed to document the changes. All case documents, restatements, and pen and ink changes adjusting the administrative surcharge rate must be countersigned (coordinated in the case of pen and ink changes) by DSCA.

d. LOAs in "Accepted" Status. All LOAs which have been accepted (signed by the customer but not yet implemented in the Defense Integrated Financial System (DIFS)) are eligible for the new rate. Upon receipt of any outstanding initial deposit requirements, DFAS-DE will implement these cases as written. A modification shall be processed by the military department adjusting the standard administrative rate to 2.5% on all applicable lines. The modification should be completed within 30 days of implementation and must be countersigned by DSCA.

e. LOAs "Implemented" On or After 1 Jun 99. There may be some LOAs which were implemented on or after 1 Jun 99 with the 3% surcharge rate applied to standard lines. The military departments shall process modifications on these cases to adjust the administrative surcharge rate to 2.5% for applicable lines. The modification should be processed no later than 30 Jul 99 and must be countersigned by DSCA.

f. Amendments/Modifications Adding New Lines to Existing (Already "Implemented") Cases. It is possible for amendments (and

modifications in rare circumstances) to be processed to add NEW lines to existing cases. If an amendment or modification includes a new line(s):

(1) Any amendment currently in "development" (not yet countersigned or offered if countersignature is not required) should be re-worked to use a 2.5% administrative surcharge for any NEW standard lines. Any documents currently in coordination or submitted to DSCA for countersignature will be returned to the pricing activity for these changes.

(2) Any modification currently in "development" (not yet signed by the military department or countersigned (if required)) should be re-worked to use a 2.5% administrative surcharge for any NEW standard lines. Any documents currently in coordination or submitted to DSCA for countersignature will be returned to the pricing activity for these changes.

(3) Any modification which has already been signed by the military department and countersigned (if required) but has not yet been implemented by DFAS-DE in DIFS, is also eligible for the 2.5% administrative surcharge assessment on any NEW standard lines. Within 30 days after DFAS-DE implements this modification, the military departments shall process another modification to adjust the administrative rate on any applicable lines. The modification must be countersigned by DSCA.

(4) Any amendments which have been "offered" to the customer (countersigned (if required) but not yet accepted) are eligible for the new rate on any NEW standard lines. It is recommended that these amendments be accepted by the customer as written. Within 30 days of implementation, modifications to these cases shall be processed by the military departments adjusting the standard administrative rate to 2.5% on all applicable lines. If the customer prefers that the rate be changed prior to acceptance, the amendment may be restated with the new rate and re-offered to the customer or a pen and ink change may be processed to document the changes. All case documents, restatements, and pen and ink changes adjusting the administrative surcharge rate must be countersigned (coordinated in the case of pen and ink changes) by DSCA.

(5) There may be amendments and modifications which were "implemented" on or after 1 Jun 99 that included NEW standard lines priced using the 3% administrative rate. The military departments shall process modifications on these cases to adjust the administrative surcharge rate to

2.5% for applicable lines. The modification should be processed no later than 30 Jul 99 and must be countersigned by DSCA.

4. Additional Information:

a. We recognize that there may be a temptation for lines to be deleted and re-added to take advantage of the reduced rate. Documents requesting elimination of a line followed by an amendment to add the same type article or service will not be allowed.

b. All documents written to adjust the administrative surcharge rate will include the following statement in the document description paragraph: "The purpose of this document is to adjust the administrative surcharge rate in accordance with DEPSECDEF Memorandum dated 25 June 1999."

c. It is recommended that documents processed to adjust the administrative surcharge rate be written as stand-alone documents. This will make tracking easier. If, however, other changes are in-work, they may be included on the same document. Even if documents include multiple changes, the statement required in paragraph 4.b. above must still be included in the description paragraph.

d. Effective immediately, a note will be included on all LOAs, amendments, and modifications which identifies the administrative surcharge rate being applied to each line. A sample note should read as follows:

"An administrative surcharge of 3% has been applied to lines 001-010. An administrative surcharge of 5% has been applied to line 011. An administrative surcharge of 2.5% has been applied to line 013."

In the above example, line 012 is a program management line which is exempt from the administrative surcharge and therefore not included in the note. Line 013 was included on this case and implemented after 1 Jun 99.

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